Department of Finance
Annual Accountability Report for the Fiscal Year 2012-2013

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1.0 Accountability Statement

The Accountability Report of the Department of Finance for the year ended March 31, 2013 is prepared pursuant to the *Finance Act* and government policies and guidelines. These authorities require the reporting of outcomes against the Department of Finance Statement of Mandate for the fiscal year 2012-2013. The reporting of the Department of Finance outcomes necessarily includes estimates, judgments and opinions by Department of Finance management.

We acknowledge that this Accountability Report is the responsibility of the Department of Finance management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Department of Finance 2012-2013 Statement of Mandate.

Honourable Maureen MacDonald
Minister of Finance

Elizabeth Cody
Deputy Minister of Finance

2.0 Message from the Minister

I am pleased to present the 2012-2013 Accountability Report for the Department of Finance.

The annual Accountability Report is an opportunity to highlight department activities and accomplishments across key policy and program areas and demonstrate performance in the day-to-day activities to help government operate efficiently and effectively.

The department achieved a number of priorities in 2012-2013, including:

- Nova Scotia can now borrow money at the same rate as Ontario for 10-year debt issues which reflects an improved risk profile for this province relative to other Canadian provinces which will translate to lower cost of borrowing;
- Government eliminated the Large Corporations Tax on July 1, 2012;
- Continued automation and streamlining improvements to IT processes across government; and
- Improvements to corporate credit card and travel policy controls.

These and many other achievements are a testament to the hard work of department staff. I would like to take this opportunity to thank each and every employee of the department for their ongoing dedication and service to the government and to the people of Nova Scotia.

As Minister of Finance, I look forward to continuing the important work of the department to further advance the priorities of government.

3.0 Financial Results

Department of Finance			
	2012-2013 Estimate	2012-2013 Actual	Variance
Program & Service Area	($thousands)	($thousands)	($thousands)
Program Expenses:			
Senior Management	$5,064	$4,589	$(475)
Associate Deputy Minister and Controller	$28,451	$27,925	$(526)
Provincial Budgetary Planning & Coordination	$820	$743	$(77)
Corporate Services Unit	$1,476	$1,481	$5
Fiscal and Economic Policy	$3,179	$2,925	$(254)
Total Program Expenses (Note 1)	$38,990	$37,663	$(1,327)
Additional Information:			
Fees and Other Charges	$26	$36	$(10)
Ordinary Recoveries (Note 2)	$3,438	$3,793	$(355)
TCA Purchase Requirements (Note 3)	$3,523	$1,439	$(2,084)
Provincial Funded Staff (FTEs) Net	257	224	(33)

Notes: Significant Variance Explanations: 2012-13 Estimate to 2012-2013 Actual

1. Variance consists of savings from vacant positions offset by increased operating expenses (net $935K under-expenditure), plus amortization savings of ($392K) due to changes in capital project start dates.
2. Variance consists of increased recoveries from municipalities and government entities for SAP support.
3. TCA was underspent due to delayed implementation of several projects.

4.0 Measuring Our Performance

Measure: Credit spread relative to Ontario

What does the measure tell us?
The relative cost of borrowing money in the markets for the government of Nova Scotia as compared to the government of Ontario's cost of borrowing. Ontario is used as the provincial benchmark across Canada because it issues the majority of provincial debt in the country.

This measure should, over time, reflect the risk the markets associate with the bonds issued by both provinces to finance their respective provincial debts. With good fiscal management the province expects there will be less risk associated with the issuance of a province's bonds and should result in a better cost of borrowing.

Where are we now?
Nova Scotia has demonstrated good fiscal management by achieving its goal of getting back to balance. The target for 2012-2013 identified in the department's 2012 Statement of Mandate is to be able to borrow money in the markets at the same rates as Ontario, or a nil credit spread. Nova Scotia effectively reached that target in 2012-13 and can currently borrow for 10-Years at the same rate as Ontario.

Where do we want to go?
We would like to maintain a cost of funds similar to Ontario over the medium to long term.

Measure: Credit ratings by major rating agencies

What does the measure tell us?
A credit rating is an independent evaluation of a borrower's ability and willingness to pay interest and to repay principal. Rating firms provide investors with these measures of the credit quality of bonds or other financial instruments. A credit rating indirectly affects the borrower's borrowing costs and the investor's expected rate of return since an investor will demand a higher return on a more risky, lower rated security.

Where are we now?
As of March 31, 2013 the province is rated single A by DBRS, A+ by S&P, and double A by Moody's. Both Moody's and S&P maintain a stable outlook for the province while DBRS maintains a positive trend for Nova Scotia.

A chart outlining individual provincial ratings can be found in the Province's 2012 Budget Assumptions and Schedules, page 3.17:
http://www.novascotia.ca/finance/site-finance/media/finance/budget2013/Budget_Assumptions_And_Schedules.pdf

The following links will take you to each agency's rating methodology:

S&P: http://img.en25.com/Web/StandardandPoors/Ratings_Definitions.pdf

Moody's: http://www.moodys.com/Pages/amr002002.aspx

DBRS: http://www.dbrs.com/research/239144/rating-canadian-provincial-governments.pdf

Where do we want to go?
The long-term goal is to be rated double A with a stable outlook (or trend) by all three of the major rating agencies.

Measure: Unqualified audit report and timely release of consolidated financial statements (Public Accounts)

What does the measure tell us?
This measure illustrates the department's commitment to accurate, timely financial reporting and meeting the legislative requirement to release the Public Accounts by September 30th.

Where are we now?
We continue to achieve this measure. All three volumes of Public Accounts for 2011-2012 received an unqualified audit opinion from the Auditor General, and were released on August 2, 2012.

Where do we want to go?
Continue to produce consolidated financial statements that receive an unqualified audit opinion on or before the legislated deadline for reporting of September 30th.

Measure: Net debt to GDP

What does the measure tell us?
Net debt as a percentage of GDP is an indicator of the fiscal sustainability and flexibility of the province. The higher the ratio, the greater the debt burden on the residents of Nova Scotia. A declining ratio indicates that the net debt of the province is declining relative to the size of the overall provincial economy.

Note: The Nominal Gross Domestic Product used in this measure is revised annually for the current year and up to four previous years. As such, ratios previously stated for particular years may change as GDP numbers are updated by Statistics Canada.

Where are we now?
As of March 31, 2012, the actual net debt to GDP ratio stood at 35.8 per cent. This represents an increase from the ratio of 35.1 per cent as of March 31, 2011.

The target ratio included in the 2012-2013 Statement of Mandate for March 31, 2013 was 34.8 per cent. The final forecast for 2012-2013, published in the 2013-2014 Budget, was 36.3 per cent, with the 2012-2013 actual to be released as part of the 2013 Public Accounts.

The increase can be attributed to below expected nominal GDP growth and above expected purchases of tangible capital assets. The majority of the increase in purchases of tangible capital assets resulted from the purchase of the Bowater land.

The current estimate for 2013-2014 is 35.8 per cent, and 35.0 per cent for 2014-2015.

The projected decline is consistent with the 2012-13 Statement of Mandate long-term target of a steady decline in the ratio. The trend is a declining ratio from a high of 49.1 per cent in 2001.

Where do we want to go in the future?
Because this measure is an indicator of the fiscal health of the province, the ongoing goal is to lower the ratio.

Measure: Sustainable Pension Plans

What does the measure tell us?
A pension plan's funded ratio is equal to assets divided by liabilities, expressed as a percentage. A funded ratio of 100 per cent means that a plan is fully funded: the fund's assets are sufficient to cover liabilities, based on current market values and actuarial assumptions. If liabilities are greater than assets, then a plan has an unfunded liability. A surplus occurs when a plan's assets exceed its liabilities.

Where are we now?
Funded ratios as of December 31 of each year:

Public Service Superannuation Plan (PSSP)

2012- 96.1%
2011- 97.6%
2010- 104.1%
2009- 69.3%
2008- 64.1%
2007- 83.5%
2006- 89.6%
2005- 88.0%
2004- 85.2%
2003- 85.8%

Where do we want to go?
To reach and/or maintain a 100 per cent funded ratio for the PSSP.

Measure: Departments and other government bodies have access to required IT programs to deliver services

What does the measure tell us?
The measure describes the provision of access to our required IT programs to deliver services across government. This includes continued improvement and implementation of cost efficient and effort reducing processes to standardize service delivery and enhance security controls through automation.

Where are we now?
Building on previous initiatives, the department continued automation and improvement of time entry for payroll and other processes across government, and further implemented new functionality to streamline employee and manager self-service. This included the implementation of time entry automation across government except for some select areas. Work will continue during the summer of 2013 on the improvement and implementation of a grants management system.

The Department continues to provide required IT programs across government through the development of a robust governance model using a contracted service delivery system. Quality assurance processes that ensure accuracy and security of that safeguard customer data continue to be a priority for the department.

Where do we want to go?
Improving front-line client support to improve service delivery is an on-going, long-term goal for the department's required IT programs. Continuing with initiatives already in operation to improve automation, and ensuring compliance and accountability will continue to be a key focus in achieving this goal.

Please note that department performance measures were substantially revised for the 2012-2013 fiscal year to improve clarity and measurability. The measure above will be discontinued in the future as part of this improvement process.

Measure: Number of services centralized and more consistent processes (payment production)

What does the measure tell us?
This measure describes areas where services have been either centralized with standardized controls and processes, or updated for improved controls and efficiencies.

Where are we now?
The department continues to improve efficiency of government through centralization initiatives. In 2012-2013 the use of electronic payments was expanded for government wide payment production.

Where do we want to go?
There are several areas where the department plans to enhance centralization:

- Payments for the Maintenance Enforcement Program.
- Expanding the use of payments by direct deposit.
- Expanding the use of electronic forms.

This work is linked to the Shared Services Review and so is currently on hold.

Please note that department performance measures were substantially revised for the 2012-2013 fiscal year to improve clarity and measurability. The measure above will be discontinued in the future as part of this improvement process.

Measure: Enhanced risk identification, assessment and management through new policies and procedures

What does the measure tell us?
This measure describes areas where services have been either centralized with standardized controls and processes, or revised to improve controls and efficiencies of these systems.

Where are we now?
In 2012-2013 the department focused on strengthening controls over travel expense claims. The revised travel policy and procedures were approved in the spring of 2012. Corporate credit card policies have also been revised to help minimize risk and will be implemented in the summer of 2013.

Where do we want to go?
Continue to improve efficiencies and development of new policies and procedures for government.

Please note that department performance measures were substantially revised for the 2012-2013 fiscal year to improve clarity and measurability. The measure above will be discontinued in the future as part of this improvement process.

Measure: Corporate Income and Capital Tax Rates

What does the measure tell us?

Corporate income and capital tax rates measure the overall marginal taxes on Nova Scotia businesses. These rates are the most visible measure of the tax environment for businesses considering investment in Nova Scotia. This measure tells us the general tax rates applied to business income and to business capital investments. Comparing our tax rates with other jurisdictions is a key indicator of Nova Scotia's tax competitiveness.

Where are we now?

Business Tax Rates for 2012 Tax Year

	NS	NB	ON	AB	Federal
General income tax	16.0%	10.0%	11.5%[a]	10%	15.0%
Small business income tax	4.0%	4.5%	4.5%	3.0%	11.0%
Large Corporations Tax (Non-financial capital tax)	0.05 %[b]	0%	0%	0%	0%
Corporations Capital Tax (Financial capital tax)	4.0%	4.0%	0. 45-0.675%	0%	1.25%

a - Ontario offers a 1.75% credit for manufacturing and processing profits, reducing the effective rates for these activities to 10%.
b- Nova Scotia's Large Corporations Tax was phased-out on July 1, 2012.

Where do we want to go?

The Large Corporations Tax (LCT) was phased out on July 1, 2012.

The Department of Finance monitors and assesses overall taxes for Nova Scotia corporate taxpayers and maintains a close working relationship with key stakeholders to ensure tax policy decisions are made with a full appreciation for the key trends and issues.

Effective January 1, 2013 the province lowered the small business corporate income tax rate from 4.0 per cent to 3.5 per cent, recognizing the importance of small business to the Nova Scotia economy. Canadian Controlled Private Corporations (CCPCs) with taxable capital of less than $10 million can apply the rate on the first $400,000 of active business income. Effective January1, 2014 the rate will drop to 3.0 per cent and the active business income threshold will be lowered to $350,000.

Measure: Personal Income Tax

What does the measure tell us?

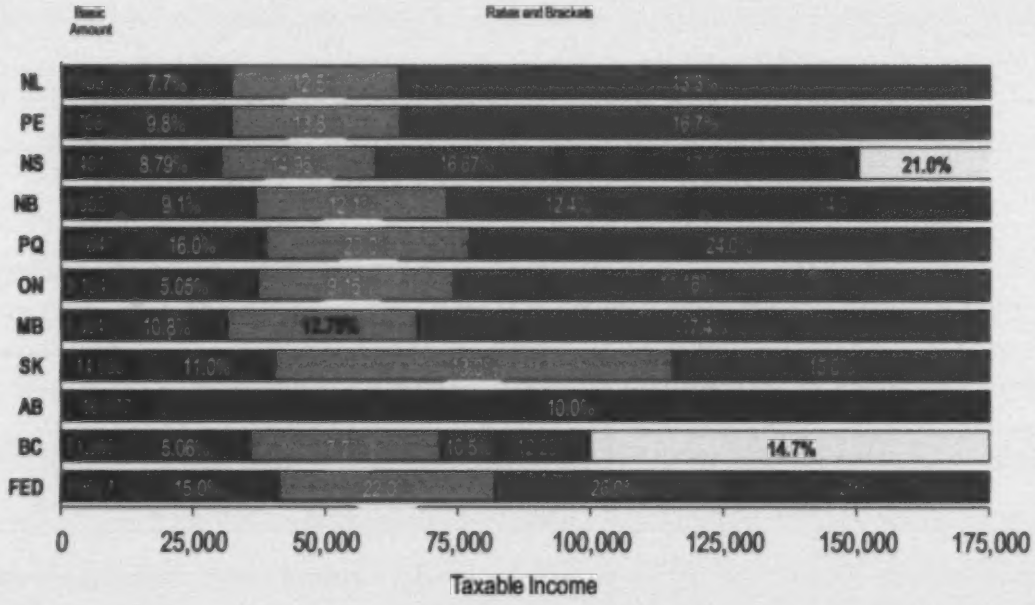
Personal income tax rates and brackets tell us how much individual tax payers in different income ranges would have to pay (in provincial taxes) on their next dollar of taxable income. This measure allows for comparing the levels of taxation among provinces at different income levels. Personal income tax rates do not measure the overall level of taxes because they ignore how much taxable income Nova Scotians actually earn and how it is distributed among them.

Where are we now?

Nova Scotia's personal tax rates are generally higher than other provinces, but less than those levied by the federal government. Commencing in 2010 Nova Scotia implemented two measures to remain in effect until the province returns to a fiscal balance: (1) eliminated the 10 per cent surtax imposed on individuals with personal income taxes payable of more than $10,000; (2) implemented a fifth income tax bracket of 21 per cent applicable to taxable income exceeding $150,000.

The province increased the Basic Personal Amount by $250/year for the tax years from 2007 to 2011. A corresponding increase has been made to the non-refundable block of credits as well. Most other provinces increase their basic amounts and tax brackets every year. In comparison, the Alberta tax system charges a 10 per cent flat tax on incomes above the 2011 basic amount of $16,977.

Personal Income Tax Rates in Canada (2011)



The government has introduced a series of tax measures to reduce taxes. This has been planned in a prudent way to ensure that the government can promote the province's competitiveness with an efficient tax system that meets social needs within the fiscal resources available.

In 2012, the department continued to administer the government's 2010 commitment to refund provincial income taxes to residents who are in receipt of the Guaranteed Income Supplement (GIS) – a federal transfer for low-income seniors.

Where do we want to go?

The department will continue to monitor and assess overall personal income taxes while examining the socioeconomic demographics of Nova Scotia tax payers. The department will continue to focus on maintaining close working relationships with key stakeholders to ensure tax policy decisions are made with a full appreciation for the key trends and issues.

Measure: Fair and affordable auto insurance

What does the measure tell us?
The measure tells us Nova Scotia residents are receiving appropriate, fair and affordable automobile insurance.

Where are we now?

Average earned premium:

2011 - $800.28
2010 - $806.54
2009 - $803.76
2008 - $808.45
2007 - $816.48
2006 - $824.58
2005 - $865.48
2004 - $787.37
2003 - $945.41
2002 - $799.57

Government conducted an extensive automobile insurance review and introduced a number of measures, in the fall of 2011, to ensure Nova Scotia's automobile insurance policy is appropriate, fair and affordable. Implementation of these reforms was substantially complete by April 1, 2013.

Where do we want to go?
Ensuring that Nova Scotians have access to appropriate, fair and affordable automobile insurance is a continuing priority of government. However, in May 2012 ministerial responsibility for the *Insurance Act* was transferred to the minister responsible for the Department of Transportation and Infrastructure Renewal. Although, the Office of the Superintendent of Insurance continues to be a division of the Department of Finance, the department will no longer report on this performance measure in future years because of the above noted responsibility change.

Measure: Staff engagement as measured in "How's Work Going?" Survey

What does the measure tell us?
This measure reflects the degree to which department staff that feel connected and involved with their job and the organization. Department employee engagement is measured every two years as part of the government-wide "How's Work Going?" Survey.

Where are we now?
The department's target for the 2013 survey was to continue to surpass corporate results. The department's employee engagement score in 2011 was equal to corporate results.

The departmental engagement score in 2013 was 54 compared to a corporate score of 60. Department engagement results in several areas improved since the 2011 survey. However, other areas declined as did the overall engagement score.

The departmental results of the "How's Work Going?" Survey, will be shared with employees over the summer of 2013. The department has an action plan to improve employee engagement as outlined the next accountably measure. Improving staff engagement continues to be a priority of the department.

Where do we want to go?
Improve and meet and/or surpass the corporate engagement results in the 2015 survey.

Measure: Percentage of initiatives started in leadership and communication action plan, based on DOF 2011 'How's Work Going?' Survey results.

What does the measure tell us?
This was a new measure in the department of Finance's 2012-2013 Statement of Mandate. This measure looks at progress on the department's action plan to improve employee engagement and provide a healthy and supportive workplace through leadership and communications. The goal was to have 75% commencement of approved action plan recommendations this fiscal year.

Where are we now?
100% of approved action plan recommendations commenced in 2012-2013.

Department of Finance employees identified the following four recommendations for improvements:

1. *Creation of a Recognition Plan* – A plan was successfully developed in January 2013 and approved by the Finance Executive Committee. This was an important step toward building a culture of recognition. Additionally, a number of initiatives in the plan were executed in 2013.
2. *Creation of a Mentorship Program* – Research was conducted to establish a working knowledge of the kinds and elements of a mentorship program. In 2013, employees will use the research to establish and implement the program.
3. *Re-Launch and Re-invigorate Finance Connects Employee Meetings* – Opportunities for finance employees to gather to share ideas and discuss corporate and strategic direction and initiatives are critical to engagement. In 2012 twice-annual employee meetings were re-launched and held in May 2012 and January 2013.
4. *Re-develop Finance Intranet* – In spring 2013, a new framework for a re-developed and updated intranet site was built. In June 2013, the framework will be shared with staff and input will be sought. The updated site will be launched in 2013.

Where do we want to go?
Efforts to improve employee engagement will continue in 2013-14 based on employee input.

Appendix A

The Public Interest Disclosure of Wrongdoing Act was proclaimed into law on December 20, 2011.

The Act provides for government employees to be able to come forward if they reasonably believe that a wrongdoing has been committed or is about to be committed and they are acting in good faith.

The Act also protects employees who do disclose from reprisals, by enabling them to lay a complaint of reprisal with the Labor Board.

A Wrongdoing for the purposes of the Act is:

a) a contravention of provincial or federal laws or regulations

b) a misuse or gross mismanagement of public funds or assets

c) an act or omission that creates an imminent risk of a substantial and specific danger to the life, health or safety of persons or the environment, or

d) directing or counselling someone to commit a wrongdoing

Please use the following format to satisfy the disclosure obligation:

The following is a summary of disclosures received by the Department of Finance for the 2012-2013 fiscal year.

Information Required under Section 18 of the PIDW Act	Fiscal Year 2012-2013
Number of disclosures received	No disclosures of wrongdoing were received by the Department of Finance in 2012-2013 or prior years.
Number of findings of wrongdoing	There were no findings of wrongdoing to report because there were no disclosures of wrongdoing received by the department.
Details of each wrongdoing	N/A
Recommendations and actions taken on each wrongdoing	N/A